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MONEY MARKET IN OCTOBER

A further large expansion of Federal Reserve credit has been needed during the past month to maintain the reserves of member banks at the required levels; in the four weeks ended October 25, the increase amounted to 950 million dollars. The heaviest drain on member bank reserves arose out of the persistent public demand for currency. In addition, the required reserves of member banks have increased considerably, reflecting the continued shift of deposits from War Loan accounts to private accounts which results from war expenditures. The distribution of reserves among member banks continues to be uneven, so that some banks found it necessary to obtain large amounts of additional reserve funds directly or indirectly from the Reserve Banks, while other banks held sizable amounts of excess reserves. For all member banks excess reserves continued to fluctuate within the range of 800 million to 1 billion dollars, which has prevailed since August 2.

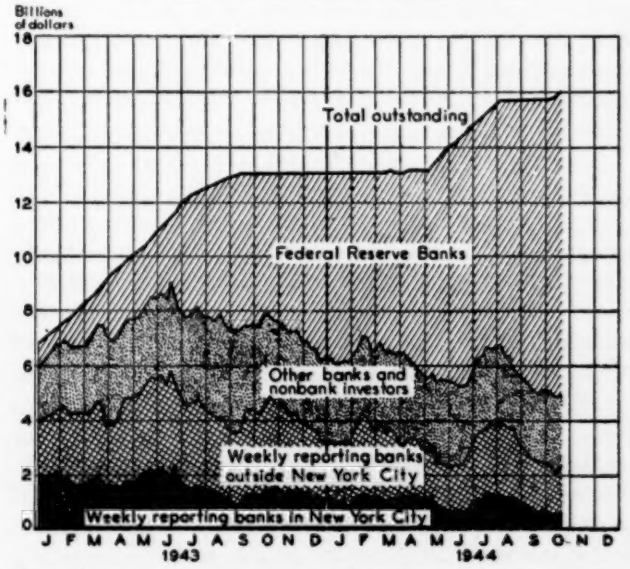
The outflow of currency from the banks proceeded at a somewhat accelerated rate during October, apparently stimulated in part by purchases of overseas Christmas gifts through the middle of the month. The increase in currency outstanding for the month is estimated at about 600 million dollars, the largest increase with one exception for any month since the pre-Christmas period in 1943.

In New York City the pressure on the member banks' reserve position has been heightened by a further movement of funds to other parts of the country. The extension of Federal Reserve Bank credit in this District, therefore, has served the dual function not only of supplying reserve funds to satisfy local demands for currency and increases in member bank reserve requirements, but also of providing reserve funds indirectly to banks in the interior which have been gaining the funds the New York City banks have been losing.

The chief mechanism through which the member banks have been obtaining additional reserve funds from the Federal Reserve System in recent months has been the sale of Treasury bills to the Reserve Banks under option to repurchase. But the persistent need for Federal Reserve credit has had the result of gradually shifting a large part of the Treasury bills into the Federal Reserve Banks. As illustrated in the accompanying chart, Federal Reserve Bank holdings of Treasury bills have increased substantially over the last year and one half. A considerable part of this expansion has come from the bill holdings of commercial banks, especially the New York City banks. From a peak of about 2.4 billion dollars in June of last year, bill holdings of the weekly reporting New York City member banks fell to a low of 450 million dollars on October 11, 1944, the smallest figure since July 8, 1942. Bills held by weekly reporting member banks outside New York City have likewise found their way into the Federal Reserve Banks, but the drop in holdings has not been as rapid as in New York. Other investors also have reduced their holdings since the summer of 1943.

From time to time the Treasury, as a part of its war financing program, has increased the amount of its weekly bill issues. The latest increase was one of 100 million dollars on October 13 when the weekly issue was raised to 1.3 billion.

Ownership of Outstanding Treasury Bills



Source: Treasury Department, Board of Governors of the Federal Reserve System, and Federal Reserve Bank of New York.

The aggregate increase in the amount of Treasury bills outstanding since the peak of member bank holdings was reached in June 1943 has been 4.6 billion dollars. During the same period Reserve Bank holdings of Treasury bills have increased by 8.6 billion dollars, and on October 25 the Reserve Banks held nearly 11.2 billion dollars of Treasury bills out of a total outstanding of a little over 16 billion dollars.

As the total amount of Treasury bills held by member banks has diminished, the number of banks able to adjust their reserve positions to meet currency demands, increased reserve requirements, and transfers of funds, through the sale of bills to Reserve Banks, has likewise diminished. Correspondingly, there has been an increase in the number of banks which have adopted other methods of obtaining needed reserves—chiefly sales of Treasury certificates of indebtedness and borrowing from the Reserve Banks. In the three weeks ended October 11, weekly reporting member banks in 101 cities not only reduced their holdings of Treasury bills by 360 million, but also made net sales of 280 million of certificates and smaller amounts of Treasury bonds and notes. Borrowings, which had been largely paid off before the end of September, increased substantially in the final week of that period.

In the week ended October 18, the outflow of funds from New York City to other parts of the country was interrupted temporarily by a substantial inflow, probably associated with payments for large new issues of corporation securities. Consequently, some New York City banks acquired substantial amounts of Treasury bills, the total for all weekly reporting banks in the City showing a net increase of 165 million dollars in that week. The distribution of funds was uneven, however, and other banks found it necessary to make further sales of Treasury certificates totaling approximately 100 million dollars and, in some cases, to increase their borrowings at the Reserve Bank. Meanwhile, reporting banks in other parts of the country continued to reduce their holdings of Treasury bills, certificates, and notes by moderate amounts.

In the following week, the outflow of funds from New York was resumed, and the New York City banks again sold a sizable amount of Treasury bills to the Reserve Bank to maintain their reserves at the required levels. Several banks, lacking that means of obtaining Federal Reserve credit, borrowed substantial amounts from the Reserve Bank. Member bank borrowings in other parts of the country also increased during that week, and total Reserve Bank loans to all member banks reached 322 million dollars on October 25, the largest amount since May 1933. This figure still seems small compared with the volume of member bank borrowing in the twenties, when the total frequently ranged between 500 million and 1 billion dollars (and reached a peak of about 2¾ billion in 1920), but indicates a gradually increasing willingness of member banks to use this method of obtaining needed reserves.

Member Bank Loans

Total loans of the weekly reporting member banks showed no important change during the past month, but there were sizable changes in the various types of loans. Loans on Government securities to borrowers other than brokers and dealers continued to be reduced, and on October 18 were down to 546 million dollars, compared with a peak during the Fifth War Loan drive of 1,575 million, and a figure just before the Fifth War Loan of 265 million dollars. Thus it appears likely that most of the loans to finance subscriptions to Government securities during the Fifth War Loan will have been liquidated before the beginning of the Sixth War Loan drive. Loans on Government securities to brokers and dealers during the Fifth War Loan were largely liquidated by the middle of August, and since that time have fluctuated irregularly, and in general have shown some increase. Loans on other securities to brokers and dealers increased by more than 100 million dollars during the latter part of September and the early part of October, but it appears that the increase reflected mainly the temporary financing of large corporation refunding operations—not an increase in brokers' borrowings to finance debit balances in the accounts of customers engaged in speculative security trading. In subsequent weeks the total of such loans fluctuated widely. Business and agricultural loans of the reporting banks increased moderately during the past month.

THE IMPACT OF THE WAR ON THE COMMERCIAL BANKS

While the war has brought about a very pronounced expansion in the assets and liabilities of all major classes of member banks, the rate of expansion in deposits and the character of the growth in earning assets has varied markedly among the different groups of banks. For all member banks deposits doubled between June 30, 1939 and June 30, 1944, and Government security holdings quadrupled. The expansion in loans, on the other hand, has been modest—only 38 per cent or about one fourth of that in deposits and about one ninth of that in Government securities. Holdings of other securities have declined by about 10 per cent. Although the figures have undoubtedly been influenced to some extent by the expansion in bank membership in the Federal Reserve System, the changes that have occurred in the major assets and liabilities of these banks have been almost entirely the result of the war—its financing by the Treasury, restrictions on unessential civilian expenditures, and the methods adopted to finance war production.

As may be seen from the accompanying table, total deposits have increased most among the smaller banking institutions—the "country" member banks. The reserve city banks have experienced somewhat smaller gains, and central reserve city banks have reported the smallest advances. Similarly, the growth in Government security holdings, while very large in

Wartime Changes in Total Deposits, Government Securities, and Loans of Member Banks
(Dollar amounts in millions)

	June 30, 1939	June 30, 1944	Increase from June 30, 1939 to June 30, 1944	
			Amount	Per cent
Deposits				
All member banks	$45,873	$101,276	$55,403	120.8
Central reserve city	16,431	31,732	15,301	93.1
Reserve city	16,499	38,295	21,796	132.1
Country	12,943	31,248	18,305	141.4
Government securities				
All member banks	13,777	60,339	46,562	338.0
Central reserve city	5,659	19,845	14,186	250.7
Reserve city	4,991	22,484	17,493	350.5
Country	3,127	18,009	14,882	475.9
Loans				
All member banks	13,141	18,084	4,943	37.6
Central reserve city	3,532	6,543	3,011	85.2
Reserve city	5,004	6,761	1,757	35.1
Country	4,605	4,780	175	3.8

all groups of member banks, has been greatest in country banks, less rapid in reserve city banks, and least in central reserve city banks. But the relative increase in loans among these classes of banks has been in just the reverse order. Loans of the central reserve city institutions have shown the largest net increase, 85 per cent between June 30, 1939 and 1944, compared with 35 per cent for the reserve city banks and only 4 per cent for the country banks. All groups of banks had a rapid expansion in loans between June 1939 and December 1941, but in country banks the subsequent repayment of loans has eliminated all but a small part of the increase.

The causes of the slower relative growth of deposits in the central reserve and reserve city banks than in the country banks have been fully brought out in the many discussions of the changes in the geographic distribution of deposits. (See this *Review* for August 1, 1943, pages 57-59 and October 1, 1944, pages 73 and 74.) Many of the central reserve and reserve city institutions are located in the eastern financial centers, and the deposits and reserves of banks so situated have been subjected to flows of funds to other parts of the country where new war industrial centers have been created and where the war has intensified the activities of both the established industrial centers and the agricultural areas. This transfer of funds to the interior was in large part due to the fact that the Treasury raised larger sums through taxes and loans in the eastern financial centers than it spent in those areas. The New York central reserve city banks have been particularly affected by this movement of funds.

Because Government securities have been the chief outlet for the increased funds available to the banks, the same factors that have been responsible for the slower growth of deposits at central reserve and reserve city banks have caused a slower growth in Government security holdings of such banks. In addition, the relatively high level of loans at these banks has also played a small part in limiting the expansion of their portfolios of Government obligations.

The limited growth in bank loans during the war may be attributed to a number of factors including (1) direct financing by the Government of the heavy capital expansion in plant and equipment needed in order to meet the vast supply requirements of the armed services, (2) limitations on capital expenditures in nonwar industries through priorities and other material controls, (3) direct financing of a large part of the greatly increased working capital needs of war contractors through advance payments by the military contracting agencies and through the use of funds accumulated for tax payments, (4) liquidation of the loans of nonwar industries which were unable to convert to war production and so were compelled to curtail or cease operations during the war, (5) decline in consumer loans accompanying the conversion of the hard goods industries to war output, and (6) the recession in real estate loans following the limitations placed on all nonessential construction activity.

Loans on securities (principally Government obligations), together with commercial and industrial loans, have accounted for the bulk of the wartime expansion in loans. Since security loans are concentrated chiefly in the larger banks, their growth goes far to explain the over-all increase in loans of the central reserve and reserve city banks. Government security loans have tended to spurt during War Loan drives, after which they have been liquidated rapidly. For this reason, the increase between June 30, 1939 and June 30, 1944, which is reflected in the figures for total loans shown in the table, gives an exaggerated impression of the growth in security loans (and so of the growth in total loans) because the 1944 figures were at the high levels reached during the Fifth War Loan drive. Nevertheless, the growth has been substantial, and, of course, has been almost entirely associated with Treasury war financing.

The gain in loans to war industries has likewise occurred chiefly at the larger central reserve and reserve city banks. The expansion of Government guaranteed V loans has been the principal offset to the decline in loans to nonwar businesses since the United States entered the war. Because the Federal contracting agencies have found it necessary to award many large contracts, V loans have also been typically for large amounts. Only banks with substantial capital resources, therefore, could handle such loans. The average size of V loan authorized to the middle of 1944, for example, was 1¼ million dollars, but the bulk of the funds involved in V loan financing represented loans of much larger size. Thus country banks had a much smaller offset in this form to the decline in nonwar business loans than did the central reserve and reserve city banks.

BANK INVESTMENT POLICIES AND VIEWS CONCERNING POSTWAR DEVELOPMENTS

In the course of interviews with officers of a number of banks in the Second District during recent months, information has been obtained concerning the banks' current investment policies and their views concerning postwar changes in

their deposits, prospective demands for loans, and other matters. The banks covered are believed to be fairly representative of various groups of banks in the District, both as to size and as to geographic location. Although the opinions expressed on some of the topics varied widely, certain broad areas in which there is considerable agreement can be indicated.

The present policy of all the New York City banks interviewed and about half of the banks outside the city is to keep fully invested. Most of the other banks keep their cash assets at moderate working levels, and only a few banks are maintaining large amounts of cash assets in excess of their required reserves. Because of the virtual elimination of excess reserves in most of the larger banks, and the emphasis that is now being placed on keeping invested as large a proportion of available funds as possible, Government security portfolios generally include large short term positions, with an ample supply of Treasury bills, certificates of indebtedness, and other securities maturing within one year to cover withdrawals of War Loan deposits and any likely fluctuations in other deposits. These short term holdings are particularly important in the day-to-day adjustment of reserve positions of New York City banks, since these banks literally keep their reserves as close to the minimum required levels as possible. Roughly one third of Government security portfolios of the New York City banks is composed of Treasury bills and certificates of indebtedness; another third comprises other securities maturing within five years. Outside New York City the banks commonly have greater proportions of time deposits which are relatively stable, and tend to invest more largely in medium and longer term securities. But their investments typically include about one quarter of bills and certificates and one quarter of other relatively short term issues.

Among the considerations entering into the determination of investment policy, the most important usually is the maintenance of an adequate degree of liquidity. For the short run, banks generally rely on their cash assets and on short term Government securities which can be readily sold or allowed to mature without replacement to meet losses of deposits. For the longer run, considerable emphasis is placed on an investment portfolio with well spaced maturities, so that a portion of the securities will mature at frequent intervals. Other factors which are taken into account in determining investment policy are the need for earnings, capital position, the possibility of future changes in interest rates and in security prices, and taxes on bank income.

By and large, present earnings are considered satisfactory, and, because of the substantial proportion of bank assets represented by short term Government securities and the additions to capital funds that are made out of earnings, capital positions are generally considered fairly comfortable despite the rapid growth of deposits in recent years. Most banks are holding a fair proportion of medium term securities with a view to strengthening their capital further out of earnings and thus preparing themselves to meet the developments of the postwar period. At the same time, the relatively high proportions of short term issues will serve to limit depreciation in the market values of their portfolios if a decline in security prices should occur after the war, and will provide funds with which to purchase higher yielding issues, should such securities become available. However, most bankers do not look for much change in interest rates within the near future. In a few banks, taxes are an important consideration in planning investment programs, but for the majority of banks interviewed taxes are not a primary consideration at the present time.

The emphasis that is now being placed on maintaining a strong liquid position by keeping a large portion of assets in short term Government securities and by planning carefully spaced maturities for investment portfolios has, of course, important implications for the postwar period. The bankers interviewed quite generally feel that after the war they will be in a good position to meet any losses of deposits that may occur, without disposing of any but their shorter term securities, and to take advantage of loan or investment opportunities that may develop.

With regard to anticipated early postwar deposit experience, many banks outside New York City, particularly those in cities which have experienced a mushroom growth of war industries, expect to lose some of their deposits when war contracts are terminated and workers return to their original homes. On the other hand, in New York City, where the growth of deposits during the war has been relatively limited, all of the bankers interviewed believe that deposits in this city will increase as funds flow back to the principal financial centers from war production centers. Most bankers look for a substantial return flow of currency from circulation after the war. It is not expected that the amount of currency outstanding will recede to prewar levels, but it is felt that much currency now in idle accumulations will be spent or invested in the early postwar period.

At the present time there is considerable difference of opinion as to the outlook for loans after the war. By and large most of the bankers interviewed in this District believe that the demand for business loans will increase somewhat. However, the expansion in loans is generally expected to be neither very sudden nor very large, because of the present substantial cash balances and large Government security holdings of most corporations and business concerns. On the other hand, almost all of the bankers covered in this survey expect a renewed demand for instalment loans, once durable consumers' goods again appear on the market in volume; they also look for some increase in the demand for real estate loans.

Another factor that will have an important bearing on the demand for bank credit after the war concerns the extent to which nonbank investors will sell or redeem their present substantial holdings of Government securities, as it is expected that banks will have to absorb a considerable part of the re-

duction in nonbank holdings. It is generally expected that business concerns will dispose of a large portion of their Government securities, particularly short term issues, some time during the postwar period. The rate at which this occurs, however, will probably depend on the rate at which these funds can be profitably employed in normal business operations. In addition, individuals are expected to redeem a portion of their holdings of Savings bonds, although there is no general agreement on the extent to which this will be done. Many bankers are of the opinion that redemptions will be rather substantial for the purpose of satisfying deferred demands for consumers' goods, or for living expenses during temporary periods of unemployment. On the other hand, a good many bankers feel that redemptions will be restrained by the tendency of many individuals to hold their Savings bonds as a reserve and to use current income and cash accumulations, frequently supplemented by instalment credit, to purchase goods that have not been available during the war.

SIXTH WAR LOAN

The Treasury Department has announced that the Sixth War Loan drive will formally open on November 20 and extend through December 16. Subscriptions for the marketable issues offered will be received only during this period, but sales of Savings bonds and Savings notes during the entire two months of November and December will be credited toward the drive goals of $5,000,000,000 from individuals and $9,000,000,000 from other nonbank investors. The goal in each category has been reduced by $1,000,000,000 as compared with the Fifth drive, during which sales to individuals totaled $6,300,000,000 while sales to other nonbank investors aggregated $14,300,000,000.

As in the previous drive, major emphasis will be placed on sales to individuals; only such sales will be publicly reported up to December 1, the issue date for marketable securities. To achieve its objective of selling as many securities as possible outside the banking system, the Treasury again requested the cooperation of all banking institutions in declining to make speculative loans for the purchase of Government securities or loans for the purpose of acquiring the securities later for their own account.

The securities to be sold will be similar to those of the Fifth drive and will consist of:

2½ per cent Treasury bonds of 1966-1971
2 per cent Treasury bonds of 1952-1954
1¼ per cent Treasury notes of 1947
⅞ per cent certificates of indebtedness due December 1, 1945
Series E, F, and G Savings bonds
Series C Savings notes

All the marketable issues will be dated December 1, 1944, and interest will accrue from that date. Subscriptions may be entered through December 16, but payments on allotments made subsequent to December 1 must include interest accrued to the date of purchase. Certain institutional investors and political units may have until February 28, 1945 to complete payment for purchases of Treasury bonds.

Concurrently with the drive, but not as part of it, commercial banks will be permitted to subscribe to limited amounts of the Treasury bonds and Series F and G Savings bonds for investment of their time deposits; also, the holders of the certificates of indebtedness maturing December 1 will be offered a 0.90 per cent Treasury note maturing January 1, 1946, on an exchange basis, and certain of the drive issues will be offered in exchange to holders of the 4 per cent Treasury bonds called for redemption on December 15. There are outstanding about $3,540,000,000 of the maturing certificates and $1,037,000,000 of the called bonds.

CORPORATE FINANCING

According to preliminary calculations, the volume of corporate financing during October reached $843,000,000, the greatest monthly total in more than 14 years. Only about 18 per cent of the total of new issues represented new capital, the bulk of the new financing representing efforts to lower interest charges by taking advantage of the prevailing low levels of interest rates. The last time corporate security issues reached such volume, in the spring of 1930, the bulk of the new issues represented the financing of business capital expenditures; "new money" issues constituted more than 90 per cent of the aggregate. As in September, the large amount of flotations in October reflected in part the efforts of investment bankers to market new corporate security issues in advance of the Sixth War Loan drive, rather than postpone the offering dates until after the close of the drive.

Approximately four fifths of the October volume of flotations was accounted for by the following five issues:

$180,000,000 Commonwealth Edison Company
3 per cent first mortgage bonds of 1977; $155,000,000 publicly offered at 104¼ to yield 2.80 per cent; for refunding purposes.

130,000,000 Philadelphia Electric Company
2¾ per cent first mortgage bonds, of which $65,000,000, maturing in 1967, were publicly offered at 100½ to yield 2.72 per cent and $65,000,000, maturing in 1974, were publicly offered at par; for refunding purposes.

115,000,000 Pacific Gas and Electric Company
3 per cent first mortgage bonds of 1974, publicly offered at 104 to yield 2.80 per cent; for refunding purposes.

100,000,000 United Gas Corporation
3 per cent first mortgage and collateral trust bonds of 1962, privately placed at par; for refunding purposes.

100,000,000 The American Tobacco Company
3 per cent debentures of 1969, publicly offered at 101 to yield 2.94 per cent; for new capital purposes.

The Commonwealth Edison Company financing was reported to represent the largest single public offering of corporate bonds ever made, while The American Tobacco Company flotation was the largest industrial offering since April 1942 when the same company issued a like amount of 3 per cent debentures. By way of comparison, the earlier issue carried a 20-year term and was offered at par; the terms of the latest issue indicate the further easing of long term interest rates on corporate securities which has occurred in the interval of two and a half years. According to reports, new issues have been accorded a good reception by investors despite the unusually large volume.

AGRICULTURAL PRODUCTION

A record output of agricultural commodities is in sight for 1944. The Department of Agriculture predicts that the amount of wheat harvested this year will exceed the 1939 level by 50 per cent and that corn production will be 24 per cent larger than in 1939. Farm production goals for 1944 called for an increase in the acreage of wheat planted, since additional wheat was urgently needed for animal feed and for industrial alcohol used in the manufacture of explosives and synthetic rubber. On the basis of October crop reports this year's wheat crop is now placed at 1,108,881,000 bushels, compared with 836,298,000 bushels a year ago and a previous record production of 1,008,637,000 bushels in 1915. There will also be more corn produced this year than ever before in the country—3,196,977,000 bushels as against 3,076,159,000 last year. With an estimated 13 to 15 per cent decrease in grain-consuming animals during 1944, this will mean a substantial increase in the supply of feed grains relative to needs. The 1944 cotton crop will probably exceed last year's production by a small margin in spite of the fact that this season's acreage was the smallest since 1895. Yields were unusually good this year, being 10 pounds per acre more than last year and 37 pounds above the 1933-42 average. Tobacco harvests are expected to be 29 per cent larger than last year's, but 4 per cent below the 1939 peak. Stocks of aged tobacco held in this country are now below normal. As indicated by the table, livestock and livestock products have been produced in approximately the same quantities as last year, and are now at an average level which is about 38 per cent higher than the prewar average.

Indexes of Agricultural Production in the United States, 1940-44
(1935-39 average=100 per cent)

	1940	1941	1942*	1943*	1944†
Food grains	110	131	139	114	153
Feed grains and hay	114	125	129	128	137
Cotton and cotton seed	95	83	98	87	90
Oil-bearing crops	171	187	300	336	262
Tobacco	101	87	97	96	124
Truck crops	111	116	129	121	140
Fruits and tree nuts	110	113	117	106	121
Vegetables	101	100	104	128	106
Sugar crops	104	97	110	80	83
Total crops	107	109	121	114	124
Meat animals	118	118	132	150	152
Poultry and poultry products	109	116	131	152	150
Dairy products	105	110	114	113	113
Total livestock and products	112	115	126	138	138
Total agricultural production	110	113	124	129	133

* Preliminary. † Based on October estimates.
Source: U. S. Department of Agriculture.

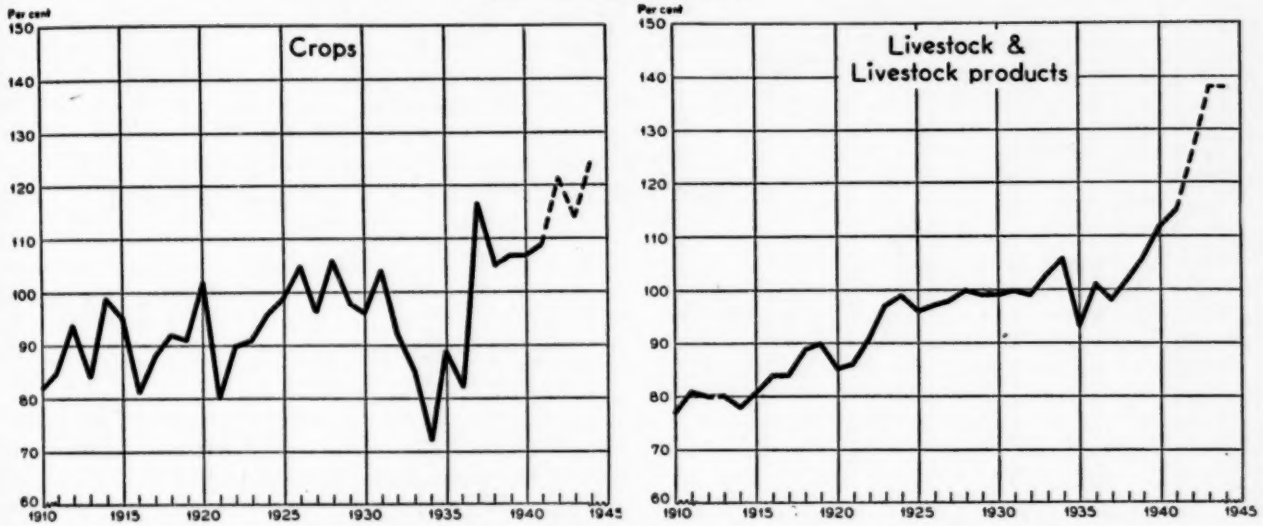
The tremendous expansion in agricultural production has been accomplished despite a decline in agricultural employment of 6 per cent between the 1935-39 period and 1943, and a further decline of 2½ per cent in 1944. These figures understate the seriousness of the farm labor situation, since they include some unskilled help recruited from the cities for the harvest season and a larger portion of family workers than in peacetime. The shortage of farm workers has been overcome by a longer and more strenuous working period, while favorable weather and advances in production methods helped to raise output. The advance in productivity during the last three years is attributed to such factors as the increased mechanization of agricultural production, improvements in the uses of land, the production of superior varieties of crops, improved breeding practices, greater application of the principles of animal nutrition, and more effective pest control.

The accompanying chart shows that this country's output of farm products is at present far above both the high level reached after the last war and the level maintained before restrictions on agricultural production were imposed during the last decade. About 25 per cent of current production is absorbed by military and lend-lease requirements. It has been estimated that in spite of rationing per capita civilian food consumption in 1944 was approximately 7 per cent above the 1935-39 average. The War Food Administration had accumulated by July of this year a reserve of agricultural products valued at more than 850 million dollars. Since the Government is not planning to add substantially to this stockpile and since military and lend-lease requirements may soon fall off, it is not expected that any efforts will be made in 1945 to top this year's output of farm products. In the field of agriculture, as in most other sectors of the economy, this country probably reached in 1944 the peak of wartime production requirements.

New York State

In New York State the output of most lines of farm products has increased during the war, but the total expansion of agricultural production has been smaller than in the rest of the country. Farmers in this section have for years found it to their advantage to produce for consumers in the East bulky and perishable products such as milk, eggs, chickens, fresh fruits, and vegetables rather than to produce nonperishable staples which can be shipped cheaply over long distances.

Indexes of Agricultural Production in the United States, 1910-44*
(1935-39 average=100 per cent)



* Data for 1942 and 1943 preliminary; 1944 based on October estimates. Source: U. S. Department of Agriculture.

The war has not brought about any significant changes in the type of farming carried on in the State.

Livestock and livestock products in 1943 were responsible for two thirds of the State's cash income from farm marketings. Last year farmers in this region experienced considerable difficulty in securing the necessary feed supply for their livestock, since corn was scarce and farmers in the West found it most profitable to use it for hog feeding. Feed crops raised in the State have not increased materially during the war, and pastures have been damaged in some years by drought. As a result, milk production, which had risen steadily since 1936 and in 1942 was more than 14 per cent above the 1936 level, declined 4 per cent in 1943, and during the first half of 1944 was even lower than the output reached during the first half of 1943. The expected easing of the feed situation will solve one of the most serious farm problems in this region and may be reflected in a larger output of dairy products next year. The production of eggs and chickens was larger in 1942 and 1943 than in prewar years, and continued to increase during the first six months of 1944. The size of the fruit harvest depends primarily on weather conditions and therefore fluctuates widely from year to year. Fruit crops in New York State were unusually small last year because of frosts, but most are expected to reach the 1930-39 average in 1944. Potato production fell short of the 1930-39 average in 1940, 1941, and 1942, but slightly exceeded that average in 1943; this year the potato crop will probably be lower than the average 1930-39 level, owing to droughts in late summer which damaged part of the potato and truck crops.

The expansion of farm production in New York State has been comparatively small in spite of the fact that farm labor shortages, while prevalent, have not been as serious as elsewhere in the country. The character of the land and the type of agricultural production which is prevalent in New York do not lend themselves to large-scale operations and to mechanization as does the growing of grains in the West. The wartime increase in productivity, therefore, has been smaller on New York State's farms than in most other parts of the United States. The available farm labor force in the Middle Atlantic region increased until 1942, declined by 1½ per cent in 1943, and continued to decrease slightly during the first nine months of 1944. Farmers apparently have met the farm labor shortage principally by working longer hours. This year the situation relative to the supply of and demand for farm labor in this region was somewhat easier than in 1942 or 1943. An important contributing factor has been the favorable weather that has prevailed in this area, enabling farmers to make maximum use of their equipment and of the time of available workers.

The adjustment of farm production to postwar needs is not likely to be a very serious problem in New York State in view of the small changes in type of product, output, and productivity which have occurred during the war.

DEPARTMENT STORE TRADE

Department store sales in this District during October are estimated to have been 12 per cent above those in the corresponding month of 1943, the same year-to-year increase as reported in September. The seasonally adjusted index of sales rose about 3 per cent between September and October and was only slightly below the all-time high of last March.

Department and Apparel Store Sales and Stocks, Second Federal Reserve District, Percentage Change from the Preceding Year

Locality	Net Sales		Stocks on hand Sept. 30, 1944
	Sept. 1944	Jan. through Sept. 1944	
Department stores, Second District	+12	+ 9	0
New York City	+12	+11	0
Northern New Jersey	+ 9	+ 4	+ 1
Newark	+ 9	+ 2	+ 2
Westchester and Fairfield Counties	+12	0	− 8
Bridgeport	+11	− 1	−14
Lower Hudson River Valley	+21	+16	+19
Poughkeepsie	+18	+14	—
Upper Hudson River Valley	+ 5	0	+ 1
Albany	+ 7	+ 3	—
Schenectady	+ 1	− 3	0
Central New York State	+18	+10	+ 4
Mohawk River Valley	+14	+ 3	− 3
Utica	+ 9	+ 4	—
Syracuse	+20	+14	+ 7
Northern New York State	+31	+11	—
Southern New York State	+22	+ 9	− 5
Binghamton	+24	+ 9	—
Elmira	+24	+10	—
Western New York State	+13	+ 7	+ 1
Buffalo	+ 7	+ 6	+ 4
Niagara Falls	+19	+ 4	+ 9
Rochester	+19	+ 9	− 4
Apparel stores (chiefly New York City)	+15	+ 9	+ 3

Indexes of Department Store Sales and Stocks Second Federal Reserve District

Item	1943	1944		
	Sept.	July	Aug.	Sept.
1935-39 average = 100				
Sales (average daily), unadjusted	141r	100	110	158
Sales (average daily), seasonally adjusted	133r	149	151	149
1923-25 average = 100				
Stocks, unadjusted	128	109	128	129
Stocks, seasonally adjusted	124r	120	131	124

r Revised.

The new record for department store sales this year is again due to the substantial increase in the sales of women's and misses' wear. During the first nine months of this year, sales for this group were 13 per cent above those in the corresponding 1943 period, as compared with a gain of 9 per cent in total store sales. Among the individual departments, however, the sales trends have varied markedly.[1] Dresses, lingerie, and infants' wear showed sales gains of almost 25 per cent. Increases in the sportswear, girls' wear, neckwear, and millinery departments were close to the group average. Sales of hosiery, handbags, coats and suits, and shoes have shown no significant increase over the preceding year, while fur sales have declined more than 10 per cent.

Sales in the homefurnishings and men's and boys' wear departments during the first nine months of this year were unchanged from those in the corresponding 1943 period. In the former group, increases of almost 25 per cent in draperies and upholstery, 10 per cent in china and glassware, and 5 per cent in furniture have been offset by declines of 5 per cent in floor coverings and housewares and 60 per cent in major household appliances. In the men's and boys' wear group, the increase in sales of boys' clothing and furnishings has offset the decline in men's wear. Among the other departments, sales of wines and liquors have more than doubled in dollar value, yard goods and stationery have gained about 25 per cent, while groceries, linens, blankets, and jewelry have shown gains of approximately 10 per cent. No significant change has taken place in sales of drugs, domestics, and silverware; luggage sales have dropped about 15 per cent.

Although department store sales have been in record volume during the past year, receipts of merchandise have equaled sales, and the retail value of stocks at the close of September was unchanged from that of a year earlier. Inventories are about 25 per cent below the peak reached in 1942, but 15 per cent above those at the close of September 1941. An analysis by departmental groups reveals that stocks of women's and misses' wear at the close of September were within 5 per cent of their value two years ago and were 25 per cent above those on September 30, 1941. Homefurnishings stocks had dropped 40 per cent from the 1942 peak and were 10 per cent below the 1941 level.

The trend in outstanding orders of department stores has been downward since July, in line with the seasonal pattern, and orders at the close of September were slightly below those on the corresponding date last year. Outstanding orders are now about four-fifths the dollar volume of stocks on hand; the proportion was about one third in 1940, before impending shortages led to a rapid rise in purchase commitments.

[1] A discussion of department store sales by individual departments over the war period was presented in the August 1, 1943 issue of this *Review*.

Indexes of Business

Index	1943	1944		
	Sept.	July	August	Sept.
Industrial production*, 1935-39 = 100 (*Board of Governors, Federal Reserve System*)	244	230	232	231p
Munitions output, 1943 = 100 (*War Production Board*)	107	113	115	114p
Electric power output*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	195	198	198	195p
Ton-miles of railway freight*, 1935-39 = 100 (*Federal Reserve Bank of New York*)	222	231	225p	
Sales of all retail stores*, 1935-39 = 100 (*Department of Commerce*)	166	177	178p	
Factory employment				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	170	158	158	156p
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	161	145	146	146p
Factory payrolls				
United States, 1939 = 100 (*Bureau of Labor Statistics*)	328	311	314p	
New York State, 1935-39 = 100 (*New York State Dept. of Labor*)	295	274	279	289p
Income payments*, 1935-39 = 100 (*Department of Commerce*)	215	232	235p	
Wage rates, 1926 = 100 (*Federal Reserve Bank of New York*)	158	165	165p	
Cost of living, 1935-39 = 100 (*Bureau of Labor Statistics*)	124	126	126p	
Velocity of demand deposits*, 1935-39 = 100 (*Federal Reserve Bank of New York*)				
New York City	88	90	83	80
Outside New York City	94	85	78	76

* Adjusted for seasonal variation. p Preliminary.